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DRAFT REPORT OF THE TRADE AND DEVELOPMENT BOARD ON THE FIRST PART OF ITS THIRTY-EIGHTH SESSION

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from 23 September to 4 October 1991

Rapporteur: Mr. Iñigo Salvador-Crespo (Ecuador)

Addendum

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Chapter I

INTERDEPENDENCE OF PROBLEMS OF TRADE, DEVELOPMENT FINANCE AND THE INTERNATIONAL MONETARY SYSTEM

(Agenda item 2)

and

DEBT AND DEVELOPMENT PROBLEMS OF DEVELOPING COUNTRIES

(Agenda item 3)

(continued)

69. The representative of Canada said that his country was firmly committed to supporting the construction of democratic political institutions and market-based economies in Central and Eastern Europe and the Soviet Union, without weakening its support to developing countries. Reflecting on the future of UNCTAD, he observed that a new international consensus had emerged. One of its elements was agreement on the complementary importance of national policies and the external environment in determining economic performance. Therefore, UNCTAD should no longer focus mainly on external factors as the principal cause of the misfortune of the developing countries; the conduct of domestic economic policies was at least as critical.

70. Another element of consensus was the appropriateness of market-oriented economic policies, and rejection of central planning and excessive State intervention. In this context, UNCTAD should help developing countries to strengthen their domestic markets and to widen the participation of the population in markets for goods and services.

71. A third element of consensus was interdependence. Here UNCTAD should also analyse how developing countries affected one another, particularly within regional groupings, and how they affected developed countries' performance. Research and policy debate in these areas, including especially intra-LDC trade barriers, were urgent and essential.

72. In Canada's view, attempts to negotiate mutually binding commitments should only emerge at the ' of a process of study and analysis which clearly revealed a complementarity of interests among the various participants. UNCTAD's negotiating role should be given a rest for a while, and member countries should concentrate on adapting its analytic approach and work

methods to the new consensus which has emerged. Diligent research and debate on economic problems, conducted along the revised analytic guidelines suggested, would inevitably produce new communities of interest among member countries. Negotiations on new agreements and instruments would emerge spontaneously from this process.

73. The representative of Netherlands, speaking on behalf of the European Economic Community and its member States, said that the Community's forecasts for the development of the world economy were similar to or, in some respects, more optimistic than those contained in the Trade and Development Report, 1991. The outlook for a modest recovery in the industrialized countries was favourable because structural policies implemented during the 1980s had made them less vulnerable to shocks, relative price mechanisms had been strengthened and financial deregulation and globalization were ensuring a better allocation of savings. Moreover, payments imbalances between the industrialized countries had continued to diminish in 1990. The external effects of German unification could be clearly beneficial because imports would be stimulated. On the other hand recovery was likely to be constrained by inflationary pressures in the EEC and the United States, by high long-term interest rates and by a reluctance to lend on the part of banks in some of the major industrialized countries. Reform in Central and Eastern Europe might lead to some improvement in economic activity in 1992 following the current difficulties. The Soviet Union's economic situation was uncertain and might worsen further.

74. In developing countries, recent policy changes now seemed to be leading to improved growth performance, although in some of these countries growth had been adversely affected by the general weakness in world economic activity and low commodity prices, particularly for coffee and cocoa.

75. He noted significant progress in improving the terms of Paris Club rescheduling. Commercial debt reduction in the context of the Brady initiative had been helpful in improving the position of some large debtors. The Community would continue its efforts to contribute to solutions to the debt problem in the context of the principle of shared responsibility, as well as of the terms of Board resolution 388 (XXXVII) and the provisions of General Assembly resolution 45/214.

76. He observed that official development assistance (ODA) continued to be of key importance, particularly in some low-income countries. The Community

and its member States were now contributing approximately 40 per cent of all world ODA. There was a need to increase the overall flow of ODA, in particular from those donors whose ODA levels were below average and from potential new donors. It was also important that developing countries increase their share of world foreign direct investment.

77. Referring to Part Two of Trade and Development Report 1991, he said that during the 1980s interest rates had partly reflected tighter monetary policy and relatively high real growth rates in the industrialized countries. There were thus grounds for doubting the proposition that the main cause was institutional changes in the banking and financial systems of Western countries. It was also questionable whether financial deregulation had increased financial instability in the OECD and whether the notion of a global savings shortage could be dismissed. The TDR rightly drew attention to the fact that development and industrialization policies had to be tailored to the particular circumstances of each country.

78. He said that it was not correct to describe the trade regimes of the EEC or other industrialized countries under the heading "persistence of managed trade". One of the central objectives of the Single Market of the EEC was trade liberalization, reflecting the Community's policy of open multilateral trade based on the GATT. He underlined that growth rates for imports into the Community in 1990/91 were much higher even than the growth of intra-EC trade. By contrast, levels of protection remained relatively high in many developing countries, and the degree of their trade liberalization efforts varied. The medium-term evolution of the world economy depended to a large extent on the successful conclusion of the Uruguay Round; the developing countries would be among the main beneficiaries. A positive result in the area of TRIPs would be an essential aspect of the outcome. The dismantling of the MFA and the reform of agricultural policies could only benefit the world trading community and developing countries in particular. This would also facilitate finding solutions to the debt problem.

79. Finally, he stated that, despite the need to support the process of transition in Central and Eastern Europe and in the Soviet Union, the EEC's commitment to strengthening the partnership with the developing countries remained undiminished.

80. The spokesman for the Group of 77 (Chile) observed that the external debt of developing countries was estimated to have reached $US 1.3 trillion

at the end of 1990. Though some small improvement had been made in the debt indicators of developing countries, the situation in Sub-Saharan Africa had worsened and substantial net negative resource flows continued to affect seriously other developing countries. In heavily indebted countries the situation remained unmanageable and was a serious obstacle to sustainable economic recovery. The international debt strategy had now recognized that solutions to the debt crisis must include both debt and debt-service reductions as central elements, and that reductions or refinancing should cover bilateral, multilateral and commercial bank debt.

81. For their part, developing countries had adopted stringent structural adjustment measures which, if they were to be effective, would have to be matched by new and greater financing as well as increased market access to exports from developing countries. The favourable policies implemented by developing countries had enabled some of them to return to the international capital market. At the same time, structural disequilibria in some developed countries had encouraged a rise in interest rates, which had increased the debt-service payments of developing countries, and had deprived them of much needed investment.

82. As regards the Brady initiative, he stated that these agreements had not significantly helped to break the vicious circle of the debt overhang. The provision of new money had been very limited. A number of factors had obstructed new lending, including the uncreditworthiness of most debtor countries, new regulatory requirements for banks, especially in regard to provisioning for new lending and capital requirements. In addition, a large proportion of bank loans had been converted into bonds, thereby excluding any future rescheduling. Also, additional multilateral debts, which were not renegotiable, had been incurred. The agreements had also suffered from an absence of authoritative estimates on debt reduction requirements and capital flows for debtor countries. Consequently, there was an urgent need to enlarge the scope of various debt-relief initiatives, including giving creditors additional incentives to engage in large-scale debt reduction. In this connection, the proposal to establish an international debt facility deserved serious consideration.

83. As regards debt owed to official bilateral creditors, he noted that this category of debt had trebled over the past decade. This increase reflected

primarily the shortcomings of the rescheduling process. He acknowledged that some improvements had been made by the Paris Club, notably through the Toronto terms for low-income countries and the Houston terms for middle-income countries. However, these resources remained insufficient. The inadequacy of the Toronto terms was increasingly recognized by the international community, including creditor countries themselves. The time was ripe to tackle the debt problem of debt-distressed low-income countries once and for all. Serious consideration should be given to the cancellation of all official bilateral debt of low-income countries. Indeed, low-income countries with substantial debt burdens but which had kept up with the servicing of their obligations at great cost should also benefit from all debt-reduction schemes.

84. He further pointed to the substantial reductions granted by official creditors to Poland and Egypt, and which could be extended to other debtor countries. This development marked a major advance by introducing the concept of debt reduction for middle-income countries and by applying the reduction to the entire stock of debt. The amounts involved were also large. Similar action in favour of other indebted countries would make a very positive contribution towards solving the external debt crisis of developing countries. He also expressed the hope that agreements reached at the London Summit of the Group of 7 would be effectively implemented.

85. The representative of the United States of America pointed to the market-oriented reforms under way in Eastern Europe, as well as in Asia, Latin America and Africa. He noted that the challenges facing the developing countries were immense and that UNCTAD should be in the front line of action in their favour. Poverty and unchecked demographic growth were the enemies. In his own lifetime, the world's population had trebled. Citing an African republic, he noted that ever more people led to ever more forest destruction, ever more pressure on over-exploited farmlands - ever more hunger and want.

86. He said that despite an ample and dedicated secretariat staff and the tremendous potential of its mission, UNCTAD's role in supporting development had been marginal. UNCTAD was not performing an adequate role in such crucial areas as privatization, policies to attract foreign and domestic investment, conversion of military spending to productive investment, analysing the development experience of rich nations and the feasibility of mimicking the success story of the "Asian Tigers", as well as in estimating the costs of

corruption and mismanagement in developing countries, policies to reverse flight capital, and analysing the benefits for developing countries of global trade liberalization in agriculture. He stressed that such a restructuring of UNCTAD activities could be accomplished by reallocating current resources.

87. He pointed out that sustained growth required capital, intelligent investment (including in education) and reinvestment. Since the poorest countries were not awash in spare capital, reductions in military spending offered opportunities for reallocating investment. Developing countries as a group spent some 5 per cent of their national income ($US 160 billion per year) on their armed forces, or about three times the level of aid flows. Flight capital was also another potential source of investment. He noted that estimates of flight capital for Latin America were roughly equivalent to that region's foreign debt. He did not foresee any new capital flows arising from non-market restructuring of global terms of trade, price-rigging in commodity agreements, or new money from commercial banks. A quantum increase in aid flows was also very unlikely. However, foreign investment represented a substantial source of savings, bringing cash, technology, training and market access in one package. Attracting such investments was not easy and competition was high. UNCTAD must be a principal voice in encouraging advantageous foreign investment and for providing advice to investment-seeking nations.

88. The representative of Poland said that consideration of the issues of interdependence should not detract from the changes currently taking place in Central and Eastern Europe, the consequences of which could not yet be fully assessed. UNCTAD could not remain oblivious to them because, firstly, one of the basic tenets of UNCTAD's constitution - namely that of relations between countries with different economic and social systems - had ceased completely to have any relevance or meaning. The pattern of negotiations in UNCTAD was therefore bound to undergo significant modification. Secondly, the collapse of the command economy and the shift to an outward-oriented and market-based one were also affecting developing countries' economic strategy perceptions and policies with a large group of countries - both in the East and in the South - which were now in a process of transition, with apparently common goals and interests. They could be exchanging their experience not only on the macroeconomic strategies of adjustment, but also on the microeconomic

strategies of firms and, in particular, to the attitude to foreign direct investment as a vehicle for closer integration with the international economy. Thirdly, the switch to market-based and outward-looking development policies made the multilateral framework and "rules of the game" in managing international economic cooperation all the more important, with the task of contributing to an improvement and strengthening of the disciplines of the world trading system becoming an imperative for all countries in the stage of transition.

89. The transformation process in Poland required immense efforts in terms of structural change, expanding business infrastructure and, above all, the changing of people's mentality. This process was currently facing many serious problems, including recession, unemployment and declining real wages, and was very much dependent on the success of the opening up of the Polish economy and its integration into the world economy. The preservation and strengthening of an open liberal trading system was thus of crucial importance. This process would create greater opportunities for future trade with developing countries but it would also enhance potential for competition. At the same time, the institutional form of Polish cooperation with developing countries would be affected. Poland would rely to a growing extent on, and make greater recourse to, a multilateral framework and rules of the international trading system in its international economic relations. The restructuring of Polish economy, as well as that of other countries of the region, would call for considerable financing, mainly domestic, but partly external. In this context, it was important that the adequacy of world savings be preserved, large fiscal and current imbalances be eliminated and, thus, international financial flows be maintained. Poland and other countries of the region were vitally interested in attracting foreign direct investment. However, despite their readiness to open up their economies to the inflow of external capital, foreign investors were rather hesitant to enter on a larger scale, in view of the social and political instability presumed to prevail in the region. Therefore in the near future an increase in resource flows to Eastern and Central Europe could be expected from the international financial institutions for balance-of-payments support or for financing structural change. The adequate funding of these institutions would therefore be an important issue.

90. The representative of Japan stated that the recent economic phenomena of accelerated globalization of activities and the substantial growth of interdependence had made multilateral cooperation essential and desirable. He suggested that developed countries should endeavour to attain sustainable non-inflationary growth and to further open up their markets, since the future well-being of developed countries would hinge on economic progress, peace and stability in the developing world. Meanwhile developing countries should undertake self-reliant efforts by promoting market-oriented economic reforms that would improve their economic efficiency and thereby enable them to participate fully in the dynamic evolution of a technologically-based, globalizing world economy. Pointing out the critical importance of the successful conclusion of the Uruguay Round, he stressed that cooperative efforts of all parties concerned were urgently required.

91. Regarding global financial resources, he feared that the future supply to the developing countries would not be large enough to meet their increasing needs. As the role of international capital markets for this purpose was expected to decline in future, more efficient allocation and use of available capital would be called for. Sound economic policies conducive to new inflows of foreign investment, new commercial lending and a return of flight capital were essential ingredients in the development strategy of the developing countries.

92. Concerning the external debt of developing countries, he underscored the need for encouraging a cooperative approach to debt relief and to greater resource flows in the context of structural adjustment efforts. In this regard, he stated that his Government intended to continue to provide new money. He pointed out, however, that even public institutions found it extremely difficult to undertake at once the provision of new money and debt reduction. Given the current external financial situation of the developing countries, the provision of new money, in his view, would be equal to or more important than debt reduction.

93. Finally, touching upon UNCTAD activities, he expressed the wish to see the revitalization of the institution and hoped that UNCTAD VIII could pave the way to this rebirth.

94. The representative of Hungary said that authoritative economists had expressed the opinion that the East European countries, forming part of the

world economy, might, after a period of decline, begin to stabilize their economic situation as from 1992. The Hungarian economy had shown in the first half of the year in many respects a more favourable trend than expected. However, these positive changes could not fully offset the unfavourable development of foreign trade, now placed on a convertible currency basis, with the East European former CMEA countries and particularly the collapse of the trade with the Soviet Union.

95. While the trade figures were less than satisfactory, the balance of payments had undergone a more favourable evolution. In addition to the growing foreign currency deposits of the population in Hungarian banks, tourism had contributed positively to the balance on current account. The number and volume of foreign investments were also increasing continuously.

96. He said that, despite difficulties, Hungary has never thought of applying for a rescheduling or cancellation of debt. In that respect an adequate trade environment supportive of Hungary's financial position was needed. In the case of a small country such as Hungary, economic issues could not be solved without wide-ranging international support and co-operation. The outcome of the current Uruguay Round would influence the development of world trade and hence the fate of Hungary, as well as of UNCTAD VIII. UNCTAD should follow carefully developments in this area. At the same time it would be a great mistake, especially for the future of UNCTAD, not to recognize that development perspectives of all Central and East European countries were basically determined by internal conditions. The Hungarian experience clearly proved this.

97. While he appreciated Part 3 of the Trade and Development Report 1991 on trade issues, he stressed that more attention should have been paid to the internal conditions of development and to the interdependence between internal and external issues.

98. The representative of Denmark, speaking also on behalf of Finland, Norway and Sweden commended the secretariat for the 1991 Trade and Development Report. He noted that the past year had been a turbulent one which had raised fears, because of the eruption of regional conflicts gravely threatening world peace, as well as hopes, because finally the international community had dealt more effectively with these conflicts and also because repressive systems were increasingly being replaced by democratic ones.

Events in Central and Eastern Europe were setting an inspiring example for oppressed people in other parts of the world. In recent years there had been a reduction of differences in political and economic systems, giving hope for a more constructive international cooperation in the rest of the 1990s. Regarding environment, he said that environmental protection and development must go hand-in-hand to ensure sustainable progress. Urgent action in a concerted manner was required if the world were to avert an ecological disaster for future generations.

99. To deal effectively with the problems of economic and social development, it was necessary to recognize the complex global interaction between trade, capital movements, exchange-rate policies, commodity problems, development assistance, debt problems, and environment issues. UNCTAD provided an important universal forum for discussion of these complex relationships. Recalling the serious debates engaged in over the last year or so by the international community on the issues of economic and social development, he said that these debates had signalled an increased willingness by the world community to address global development issues in an emerging spirit of multilateral dialogue, cooperation and partnership. He stressed the growing recognition that developing countries had the primary responsibility for their own economic and social development. Moreover, there was a growing recognition that only sound economic policies, based on the interplay of market forces and stimulating popular participation and the development of human resources could ensure lasting economic growth. In this regard, that the public sector should play a complementary role to that of the private sector. Regarding military expenditures, the Nordic countries believed that it was important that resources currently spent on armaments, to the largest extent possible, be released for productive development purposes.

100. In an interdependent world, domestic efforts must be complemented and supported by a favourable global economic environment. The Nordic countries underlined the importance of an open and credible multilateral trading system for growth and development. They strongly hoped that the Uruguay Round could be brought to a successful conclusion with substantial and balanced results across the board. To this end, genuine efforts by all participants were required. The Nordic countries hoped that such a result would also contribute to the increased integration of developing countries into the multilateral

trading system. Regarding the transfer of resources to developing countries, he called upon donor countries who remained below the international target of 0.7 per cent for ODA to contribute to a significant increase in ODA flows to meet this target; he also urged donors to ensure that the agreed commitments made at the Second United Nations Conference on the Least Developed Countries be met.

101. In spite of all the efforts made by creditors and debtors alike, the end of the debt crisis was not near. He emphasized, however, that important progress had been made. The international debt strategy had evolved. Economic adjustment programmes implemented by many countries and supported by debt reschedulings and restructurings were beginning to show positive results. Also, international consensus had developed on the need for debt reduction, especially for the poorest of the heavily indebted developing countries undertaking sound economic reforms. In the view of the Nordic countries, the debt burden of the poorest countries should be placed high on the international agenda and special measures were necessary to reduce their debt burden. The Nordic countries welcomed the review currently being undertaken by the Paris Club. For the most indebted of the poorest countries, who were making serious efforts to solve their economic difficulties, debt reduction of up to 80 per cent should be granted on a case-by-case basis.

102. Regarding the environment, he said that the UNCED in 1992 should provide guidance for the system-wide work on environment and development problems. It was crucial that all organizations concerned engage fully in the preparatory process. In this regard, he welcomed the contribution from the UNCTAD secretariat to the recent Preparatory Committee of UNCED and said he was looking forward to further UNCTAD contributions to the preparatory process in the field of trade and development, especially in the form of assistance at the technical level. Furthermore, he urged on behalf of the Nordic countries that the preparatory process be accelerated.

103. The representative of Switzerland noted the slowdown in the world economy in 1990 and added that projections for 1991 were not very encouraging, as the 1991 growth rate was projected at 1.25 per cent. Contrasting these figures with those registered for the growth of developing countries as a whole, he said that data analysis revealed a link between the rate of growth and liberalization: those developing countries that had pursued adjustment

policies or that had maintained outward-oriented policies had registered higher growth rates than the other countries. On the other hand, in some developing countries there were still major obstacles to development, such as macroeconomic disorder, structural rigidities and inefficiencies, and debt.

104. Regarding interdependence, he said that Switzerland had made concrete proposals to improve cooperation between GATT and the Bretton Woods institutions. Switzerland was convinced that better coherence between policies at the international level was the best way to improve the situation within countries through the discipline imposed by international agreements. He also mentioned the need to ensure more coherent social policies, in particular as regards human policies and environment. In his view these latter policies were actually part of what was known today as "good governance". Good management was not sought for its own sake only, but as a way to achieve sustainable development. The Trade and Development Report, while rightly pointing to the measures recently taken by some countries against developing countries, did not mention the restrictive measures taken by developing countries and did not compare either the overall levels of protection. He also expressed reservations as to the way the issue on "protectionism and adjustment" was dealt with in the Trade and Development Report. While the report recognized that the measures included in the UNCTAD data bank on trade did not necessarily constitute barriers, the secretariat calculated barriers to market access on the basis of the quantity of these measures.

105. On debt, he said that Group B as well as the Trade and Development Report had noted the progress made on debt. He insisted, however, on the need for the international community to continue and strengthen its support to the progress made on debt. Regarding the measures taken by Switzerland in this regard, he said that Switzerland had decided to make available 500 million Swiss Francs for debt relief, and that his country hoped to reduce through this means the debt of the poorest and most indebted developing countries, amounting to about 2,100 million Swiss Francs. He added that countries pursuing an economic reform programme and with a debt management system were eligible for his country's scheme, and that Bolivia and Niger were already benefiting from it. Debt reduction operations under this scheme were also under way in Mozambique, Nicaragua and Peru. He also mentioned another

type of assistance scheme: debt for environment (or debt for nature). He mentioned the close co-operation between Switzerland and non-governmental operations on this matter, and added that his country was ready to continue to develop this type of international cooperation.

106. Finally, he stressed once again that it was of the utmost importance to conclude the Uruguay Round quickly and satisfactorily.

107. The representative of Peru said that, while progress had been made in liberalizing trade in both developed and developing countries, no decisive steps had yet been taken towards a reform of the international monetary system. Therefore, much of the gain from trade liberalization could be limited by arbitrary adjustments in interest rates or by excessive fiscal deficits in the major economies. Moreover, the issue of development had been neglected in the consideration of world trade and financial problems. Complementary measures to foster growth and development in the South needed to be taken urgently.

108. He said that the Uruguay Round could contribute to an opening up of markets and to trade flows which were exclusively determined by the efficiency of production. It was a paradox that progress in trade liberalization was to a large extent the result of unilateral and non-reciprocal measures of a large number of developing countries. His own country had reduced its tariffs substantially and eliminated all non-tariff barriers as well as export subsidies. Morevoer, it had eliminated all State monopolies and liberalized its financial system, the transport sector and the foreign direct investment regime. It was now up to the industrialized countries to liberalize their trade, particularly in areas where the developing countries were competitive such as textiles, agriculture and tropical products.

109. Turning to debt, he considered that the principles of the Brady initiative should be applied to all debtor countries and that radical debt relief was required, including official debt. He added that Peru appreciated the outcome of its recent Paris Club renegotiations, but its debt overhang was persisting so that a new round of rescheduling for debt maturing after 1993 would become necessary. A political decision to cancel official debt once and for all would avoid such repetitive renegotiating and might therefore be a more efficient solution.

110. The representative of Ukraine said that the world economy continued to face problems of protectionism, external debt, exchange rates volatility,

falls in commodity prices and shortage of resources for development. Recently the difficulties of transition to a market-economy system in Eastern Europe had contributed to those problems. The new policies of the Eastern European countries aimed at transition to market economy, democracy, and integration in the world economy. It was evident that national efforts had to be supplemented by adequate support by developed countries through financial, technological and other assistance. UNCTAD in cooperation with other international organizations, should come up with new ideas concerning interdependence of development, trade, finance and other problems in a changing world. In particular, it was time to form a universal regime of international trade and economic cooperation extending beyond the framework of the Uruguay Round. In that respect the idea of a universal trade organization deserved close scrutiny. UNCTAD should also continue to follow the issues related to economic reform in Eastern Europe. Other global problems such as debt, the international monetary system, disarmament for development, should also continue to be among UNCTAD priorities.

111. Drawing attention to the problems which Ukraine, as an independent State following the recent proclamation by its Parliament, was facing in its transition to a market economy and independence, he stressed that the transition was taking place in circumstances of falling production, and excessive money incomes, although according to many experts these difficulties were of a transitory character. Meantime, the Republic had adopted many laws and acts laying the ground for a market-economy system. Among them were laws on entrepreneurship, foreign economic activities, and protection of foreign investment. There were also plans introduce a new national currency. Finally, he expressed his hope that the external environment would be conducive to the implementation of economic reform in Ukraine, and that the integration of the Republic's economy into the world economy would determine Ukraine as an important trading partner, a potential supplier of resources, and a new market for all countries, including developing countries.

112. The representative of the World Bank said that, historically, growth rates in developing countries and in industrial countries had followed each other closely. In the 1980s, however, the per capita growth rate of developing countries had fallen significantly below that of industrial countries. This fact became more alarming when one realized that in large

parts of the developing world, notably in East and South Asia, progress had actually accelerated in the 1980s. Correspondingly, per capita incomes had declined both in Africa and in Latin America.

113. According to the World Bank's projections, contained in the latest World Development Report (WDR), income growth in the high-income industrial countries would be somewhat slower in the 1990s than in the 1980s, but the growth of world trade would be somewhat faster, and real interest rates somewhat lower. The 1990s looked slightly better than the 1980s, but also with great diversity. East Asia would continue to lead with the fastest growth rates. Latin America would return to positive growth of per capita incomes. The reforming economies of Eastern Europe would return to a positive growth path towards the middle of the decade, thus, with perseverance and luck, ending the decade with marginally higher incomes than those with which they started it. Though positive income growth was barely perceptible in Sub-Saharan Africa, it was nevertheless a welcome change after two decades of decline. There was obviously interdependence between these two projections. Faster growth in high-income countries helped developing countries and the reforming countries of Eastern Europe and the USSR, through faster-growing demand for their products, and perhaps through higher aid. Interest rates carried over to the cost of capital, and even to its availability. Interdependence was even greater when one looked at specific policies towards aid, debt relief, and trade. The industrial countries could raise or lower by a point or two the growth performance of the fast-growing countries. They could facilitate, or seriously hinder, the adjustment efforts of those which, in Latin America, in Africa, in Asia, and in Eastern Europe and the USSR were striving to reduce macroeconomic imbalances and improve efficiency. But it would be defeatist, and ultimately unacceptable, to pretend that reform and economic policy improvements were absolutely dependent on outside help and other favourable conditions, which might never be fully realized. Reform postponed rarely became reform made easier.

114. Conduct of the proper policies in the lower-income countries, then, was their full responsibility. They could not delegate it; they could not give it up; and they could not use the lack of favourable external conditions as an excuse for not carrying them out. On the contrary: one might be able to

afford wasteful policies when external conditions were good; when external conditions were bad, when resources were scarcest, it was all the more necessary to make good use of them.

115. But this did not absolve the high-income countries from their responsibilities. It was in their interest, not just that countries attempting vigorous economic reforms should succeed in them; but that they should succeed at tolerable human and social costs, in open political systems, free from extremisms of every kind, including excessive nationalism. They could help by ensuring healthy conditions for their own growth.